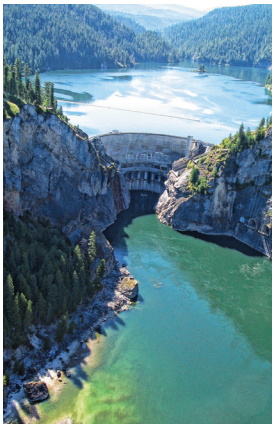
May 2014

SEATTLE CITY LIGHT 2015-2020 STRATEGIC PLAN UPDATE

A PROGRESS REPORT ON YOUR POWER FUTURE

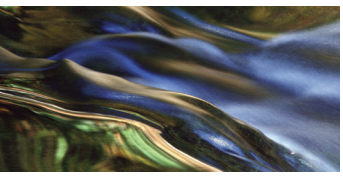


The Seattle City Light Strategic Plan Update highlights the progress the utility is making to realize its goal to exceed customers' expectations in producing and delivering environmentally responsible, safe, affordable and reliable power.

FUTURE-FORWARD ELECTRIC POWER

MAXIMUM EFFICIENCIES

COMMUNITY INVOLVEMENT



ENHANCED RELIABILITY

Seattle City Light

Letter From The General Manager

INVESTING NOW: A BRIGHTER FUTURE FOR CUSTOMERS

Now in the second year of our six-year Strategic Plan, I am pleased to report Seattle City Light is delivering on its promise and providing environmentally responsible, safe, affordable and reliable power — today and for years to come.

I would like to thank City Light's Review Panel for its hard work and thoughtful input into our Strategic Plan Update. Panel members spent countless hours reviewing information, analyzing data and discussing all facets of the Update, from rate design to community outreach. We are fortunate to have their involvement.

Initiatives and investments launched last year to improve our performance and provide rate reliability and predictability are well under way, with several already completed. The utility has increased its financial strength, exceeding both its net income and debt service goals for 2013. Additionally, City Light's bond rating was upgraded, which gives us the highest rating of any publicly-owned electric utility in the Pacific Northwest.

The original Strategic Plan is updated every two years to adjust for new forecasts and operational changes, and to make certain the utility delivers on the plan's promises. The updated Strategic Plan reflects what we've learned in the past two years, as well as input from our independent Review Panel, customers and the community.

For 2015–2020, an adjusted rate path of 4.4 percent, down from 4.7 percent, is proposed to address changing conditions. The average increase for a typical residential bill will be $2.96 a month. Some of the refinements account for higher-than-predicted costs for the Denny Substation due to design changes that were requested by the community, and higher environmental remediation costs. These cost increases will be offset by City Light's lower debt service costs. We also reduced our load growth assumptions based on recent history and our expectation and support for increased conservation in our service area.

To meet these challenges and keep the plan on track, we continue to look for efficiencies. From improving internal processes and incorporating new technologies to improvements to our generating system, our hard work is paying off. We exceeded our efficiency target in 2013 by $3 million and are on track to achieve overall savings of at least $18 million per year starting in 2015.

To ensure our revenue model meets the needs of a changing utility and policy direction from the City Council, the Review Panel also conducted an extensive review of City Light's rate design. The result of this process is a new strategic initiative.

As we move forward, we will continue to refine the plan, incorporating new information and lessons learned; however, the fundamentals will remain unchanged.

Most importantly, the Strategic Plan Update is about fulfilling our commitment to transparency and accountability. This blueprint outlines our path forward and is our report card to the community on how we're doing.

On behalf of all the dedicated employees of City Light, thank you for your involvement in our work and in helping us be the best utility in the country. We're making progress. Let's keep it going.

Sincerely,

Jorge Carrasco
General Manager

Learn more about the Seattle City Light Strategic Plan Update at www.seattle.gov/light

Why A Strategic Plan Update?

Two years ago, City Light completed the most extensive planning process ever undertaken by the utility to serve as a road map for how to best meet customers' current and future needs. The plan was the product of a process launched by the mayor and City Council in 2010 and overseen by a newly chartered City Light Review Panel representing key customer groups.

City Light's general manager and officers led the planning effort, with extensive involvement from the Review Panel, other city departments, business groups, neighborhood councils, ethnic communities, business leaders, customers, employees and other key stakeholders. The Seattle City Council unanimously adopted the plan in May 2012.

The Strategic Plan is updated every two years to reflect current conditions, incorporate necessary adjustments and provide a report on progress. The Review Panel is charged with overseeing the Strategic Plan Update and rate policies. Members meet at least monthly to analyze data, hear public input, review new initiatives and consider rate policies.

For the Strategic Plan Update, a number of factors made adjustments necessary. To address changing conditions, four strategic initiatives are proposed, including changes to City Light's rate design that will more accurately reflect its cost structure. Even with these adjustments, the main elements of the Strategic Plan adopted in 2012 remain unchanged.

CITY LIGHT REVIEW PANEL

Created in 2010 by City of Seattle Ordinance, the City Light Review Panel includes representatives from private, public and non-profit sectors; utility experts; business leaders and community representatives.

The panel met 26 times to hear briefings from City Light leaders about progress made on the original Strategic Plan, to provide input into the update and to consider rate design policy.

Members include:

- Tom Lienesch *(Economist)*
- Julia M. Ryan *(Financial Analyst)*
- Stan Price *(Non-profit Energy Efficiency Advocate)*
- Eric Thomas *(Residential Representative)*
- David Allen *(Commercial Customer)*
- Chris Roe *(Industrial Customer)*
- Sue Selman *(Low-income Customer Representative)*
- Eugene Wasserman *(At-large Customer)*

2013 Strategic Plan Progress Report

In 2012, the City Council and Mayor adopted a six-year Strategic Plan to predictably and responsibly guide City Light's ability to meet current and future needs. The plan is organized around four key objectives:

1. Improve Customer Experience and Rate Predictability
Seattle's technology-savvy population expects City Light to efficiently manage the energy system, respond quickly to customer concerns and outages, and to be able to predict and budget their utility costs.

2. Increase Workforce Performance and Safety Practices
The Strategic Plan gives City Light a path to proactively manage an impending wave of retirements and be able to retain highly skilled workers. City Light must also continuously improve its employee safety record, which as of the end of 2013, is ahead of target.

3. Enhance Organizational Performance
City Light's goal is to be in the top 10 percent of peer utilities on measures of efficiency and effectiveness, and to reduce baseline costs by an ongoing $18 million per year, at a minimum, starting in 2015.

4. Continue Conservation and Environmental Stewardship Leadership
The Strategic Plan ensures that the utility remains the nation's greenest utility. City Light invests in research and strategic initiatives such as promoting electric vehicles that will help it adapt to the impacts of climate change. The utility is also looking at ways to strengthen its financial resources in environmentally-responsible ways such as optimizing its ability to sell excess power on the wholesale energy market, among other things.

SIGNIFICANT PROGRESS: KEY ACCOMPLISHMENTS IN 2013

Improved reliability: Achieved average of one outage per customer during 2013 – beating goal
A new work and asset management program to identify, assess and prioritize work, along with increased tree trimming and a systematic pole replacement program, helped improve reliability in 2013.

Street lights: Exceeded goal of responding to 90 percent of street light outage reports within 10 days
City Light revamped its street light re-lamping cycle to improve service, speed up street light repair time and reduce costs.

Unit 55 rewind: Increased revenue under normal hydro conditions through 15 percent improvement in generating
This project repaired the Unit 55 Generator at the Boundary Dam, which had been damaged by long-term exposure to excessive vibration, and replaced turbine runners to improve efficiency. Overhaul and rehabilitation work will improve its performance and ensure it continues to operate efficiently for years to come.

Boundary Dam relicense: New FERC license secures a low-cost clean resource until 2055
City Light successfully developed protection, mitigation and enhancement measures leading to successful renewal of the Boundary Bay Dam FERC license issued in 2013.

Energy conservation and environmental leadership: City Light is implementing a five-year energy conservation strategy that will double the utility's energy savings
In 2013, City Light launched a "pay-for-performance" pilot project with three commercial office buildings to test innovative new approaches for building energy savings. City Light also supported two Solarize Seattle neighborhood campaigns resulting in more than 300 customer solar installations with a total of 452 installed city-wide.

2013-2018 Strategic Initiative Update

Organized around its four key objectives, City Light is also making 36 strategic investments during the 2013–2018 timeframe. The following chart summarizes progress being made on these strategic investments. For more detailed information, please see Appendices.

STATUS	INITIATIVE	O&M ($M)	CIP ($M)
Objective 1: Improve customer experience and rate predictability			
🟡	Compliance Tracking And Standardization	3.5	0.8
🔴	*Denny Substation	1.5	173.6
🟢	Transmission System Improvement		18.2
🟢	Underground Cable Replacement	1.2	5.3
🟢	Improved Streetlight Infrastructure		29.9
🟢	Hydro Performance And Generation Availability	1.4	
○	Advanced Metering Infrastructure	(6.4)	80.5
🟢	Align Budget And Rates	0.3	
🟢	Net Wholesale Revenue Practices	126.3	
✔	Strengthen Ratepayer Advocacy		
🟢	Cost Of Service And Rate Design		
🟢	Customer Portal (Web Site, Services)	0.7	1.4
🟡	Customer Contact Center Performance		
🟡	Low Income Assistance Program		
Objective 2: Increase workforce performance and safety practices			
🟢	Safety Culture Promotion/Practices	(4.6)	
🔴	**Skilled Workforce Attraction And Retention	27.2	6.2
Objective 3: Enhance organizational performance			
🟢	Effective Communication And Engagement		
🟢	Benchmarking City Light Performance	1.7	
🟡	IT Roadmap	5.7	12.5
🟢	Performance-Based Reporting	5.4	3.1
🟢	Internal Audit	4.1	
🟡	Project Management Quality Improvement	2.8	
🟡	Service-level Agreements	0.8	
🟢	Procurement Process Improvements		
🟢	Efficiency Initiatives	(55.9)	(37.5)
🟢	Financial Policies	3.0	
🟢	IT Security Upgrades	1.2	4.2
🟡	Enterprise GIS	4.1	6.4
○	Mobile Workforce	0.8	0.8
🟡	Regional Electric Utility Leadership	(10.2)	
🟡	Updated Standards	3.0	
Objective 4: Continue conservation and environmental leadership			
🟢	Enhance Environmental Leadership	0.1	
🟡	Reduce Environmental Liability	1.4	9.1
○	Electric Vehicle Infrastructure		
🟢	Climate Research	1.3	
🟡	Conservation Program Enhancement		

STATUS KEY:

- ✔ Completed
- 🟢 On-track
- 🟡 Behind schedule, expected to be delivered on time
- 🔴 Scope or timeline adjusted
- ○ Not started

*Denny Substation costs have increased by $62 million due to changes in the design in response to community input and higher-than-anticipated environmental remediation costs that were identified in the draft Environmental Impact Statement.

**Refers to the Technical Training Center. The complexity of the pre-design phase resulted in the need for additional funding. City Light also spent time and resources evaluating other potential sites but ultimately determined that the original site was the most cost-effective and well-suited for this project.

2013 Strategic Plan Efficiencies Exceed Target

The 2013-2018 Strategic Plan includes both efficiencies that have already been undertaken and new initiatives yet to be implemented. In 2013, City Light achieved $9.9 million in new savings, exceeding the target of $6.9 million by $3 million.

All told, City Light has identified efficiencies that are projected to save $18 million per year by 2015, including revised transmission, distribution and generation practices, improved project management on capital projects and improved work processes. The utility will continue to look for efficiencies above and beyond these savings.

EFFICIENCIES	PROPOSED ANNUAL SAVINGS BY 2015	ANNUAL SAVINGS ACHIEVED IN 2013
Revised transmission, distribution and generation practices	$15,000,000	$1,874,611
Modified cost allocation and service-level agreements	$360,000	$399,000
Improved work process *(billing, credit/collection, procurement, fleet management, street use permitting, project mgt, online security)*	$2,640,000	$2,893,849
One-time revenue and savings *(real estate sales, Northwest refund, BPA power factor refund)*		$4,321,610
New sustainable savings *(BPA power factor reduction, power management slice solution)*		$379,000
TOTAL	**$18,000,000**	**$9,868,070**

New Initiatives For 2015–2020 Strategic Plan Update

The updated plan contains four new initiatives which will provide enhanced services and greater efficiencies.

1. Distribution automation technology

New technologies are now available to give City Light the ability to actively monitor and manage its distribution system in real time. This initiative will reduce outage duration and frequency. This improves safety and customer service, saving time and money, all key strategic priorities for City Light. The system utilizes a network of field equipment and software to actively monitor, respond to faults and automatically restore electric service, while also managing demand response and optimizing energy delivery.

2019-2020 cost: $12 million

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2. Service centers master plan

City Light's service centers are the backbone of its operations, directly impacting its mission to provide reliable, low-cost power to customers. Many essential functions are located in the service centers including line trucks and dispatching, materials and equipment, shipping and receiving, staging of supplies, shops operations and fabrication. Built in the 1950s and 1920s respectively, City Light's North and South Service Centers have exceeded their intended operational lifespans:

- Building systems are aging and increasingly unreliable
- Service yard areas are constrained and highly congested
- Little opportunity to accommodate growth or reconfiguring to meet changing needs

Additionally, the South Service Center sits in an area of Seattle that has a high susceptibility to soil liquefaction during an earthquake, which would have significant impacts to continuity of operations following an earthquake.

This initiative will undertake a site master planning process to evaluate options for making improvements to the current facilities or potentially consolidating them into one centralized location.

2019-2020 cost: $106 million (this figure represents the lowest cost option)

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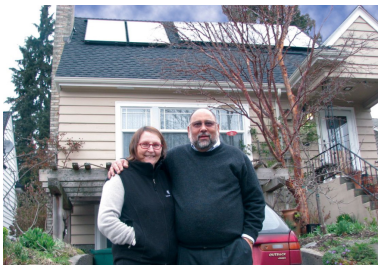
3. Net wholesale revenue/rate stabilization account



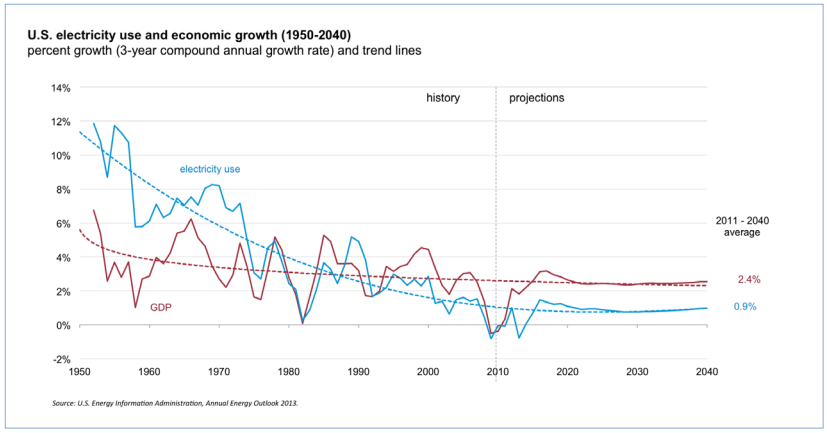
This initiative will reduce the amount of net wholesale revenue assumed in City Light's budget faster than was projected in the original Strategic Plan. It reduces the probability of a rate surcharge in the near term and increases the chances of giving customers a credit or reducing long-term debt in the future.

City Light's net wholesale revenue budget target is mandated by ordinance. Over the past few years, the wholesale revenue targets have been higher than City Light's forecast and actual net wholesale revenue. The key reason is the amount of revenue City Light can generate from wholesale power sales is largely dependent on weather and the demand for energy in other markets.

4. Rate Design: Addressing challenges

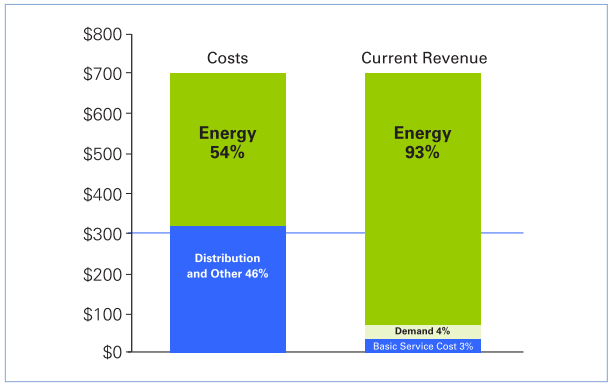
The Strategic Plan reflects the kind of services City Light customers want and the values of the community it serves. Customers expect the utility to use modern technology, operate efficiently, have predictable rates and continue its rich tradition of environmental leadership. They are proud that City Light was the first carbon-neutral utility in the country.

In fact, environmental and conservation programs are changing the landscape. In 1950, energy consumption grew about 12 percent a year. Now, growth averages less than one percent a year.



While customers are using less energy, they want more services, access to new tools like mobile and online outage information and the ability to monitor their energy consumption in real time. Electric utilities across the country are shifting to a more service-driven model of operation.

However, even though customers are using less energy, City Light needs to maintain poles and wires and provide reliable energy and excellent customer service. Nearly 50 percent of the costs of running the utility are fixed, yet 93 percent of its revenue is from variable electric usage (per kilowatt-hour).



REVIEW PANEL RATE DESIGN GOALS

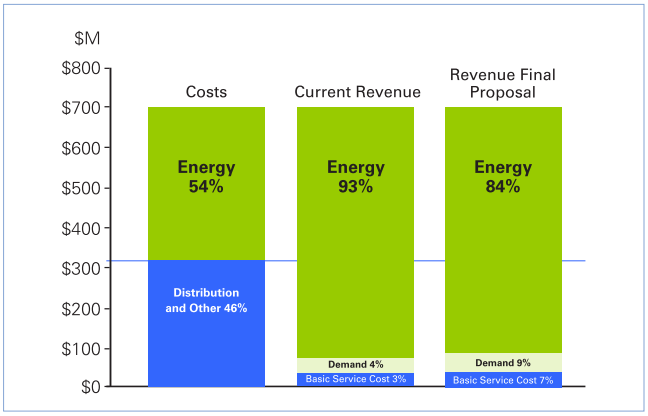
- **Predictability:** Rates/bills should be predictable.
- **Simplicity/ transparency:** Rates should be understandable and changes are implemented in an orderly way.
- **Price signals:** Rates should provide meaningful price signals that ratepayers can observe and act on, to encourage consumption awareness and conservation.
- **Equity:** Everyone should pay their true cost of service.
- **Financial stability:** Rates should collect the full revenue requirement with a reasonable level of certainty.

This model has not changed significantly since the 1980s. Consequently, it does not accurately reflect the cost of maintaining City Light's infrastructure and providing high-quality customer service. For example:

- Customers who use electricity consistently (e.g. hospitals and grocery stores) are paying more than it costs the utility to provide electric service to them.
- Customers who generally use a relatively small amount of electricity but have occasional high consumption needs, such as stadiums and convention facilities, are paying less than it costs the utility to provide electric service to them.

2015-2016 PROPOSED RATE DESIGN

There is a way to provide customers with better service and rate predictability through some small changes proposed in the utility's rate design. These proposed adjustments would more accurately reflect the utility's cost structure (see figure on right).



These adjustments would not change how much revenue the utility collects from each customer class in a given year, but within a customer class, some will pay slightly more and others a bit less. Here is a snapshot of what it would mean to commercial and residential customers:

Commercial customers

- Moving from a minimum charge to a monthly base service charge. The majority of income will still come from the amount of energy a customer uses and promote conservation.
- A time-of-use rate, as appropriate. Instead of using a single flat rate for energy use, time-of-use rates are higher when the cost of electricity is higher.
- A moderate increase in the demand charge for medium, large and high-demand customers.

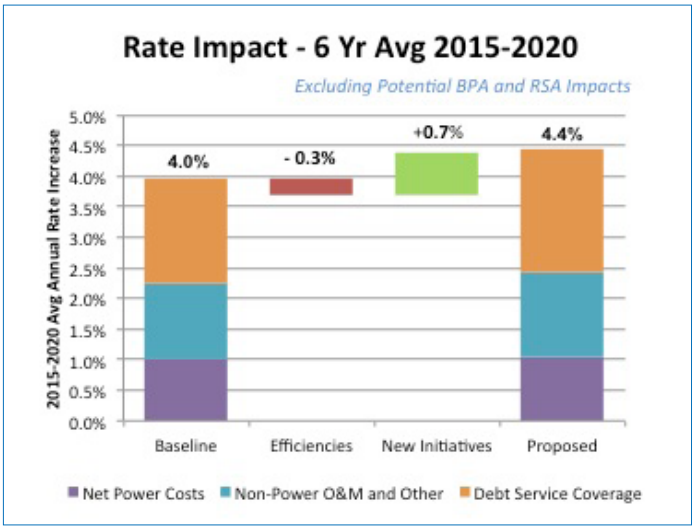
Residential customers

- A continued commitment to the Utility Discount Program which offers qualified customers a 60 percent discount on their electric bill.
- The seasonal rate difference would be removed for residential customers while retaining the two block structure to encourage conservation.
- A small increase in the base service charge, from $4.70 to approximately $7 per month. There will also be a reduction in the per kWh charge for the first block of energy used (up to 300 kWh/month), again to encourage conservation.

City Light: Predictable And Stable Rates

NEW SIX-YEAR RATE PATH

City Light's long-term rate path, the overall revenue needed by the utility, is represented by the Strategic Plan Update, which establishes predictable and stable rates for the coming years.

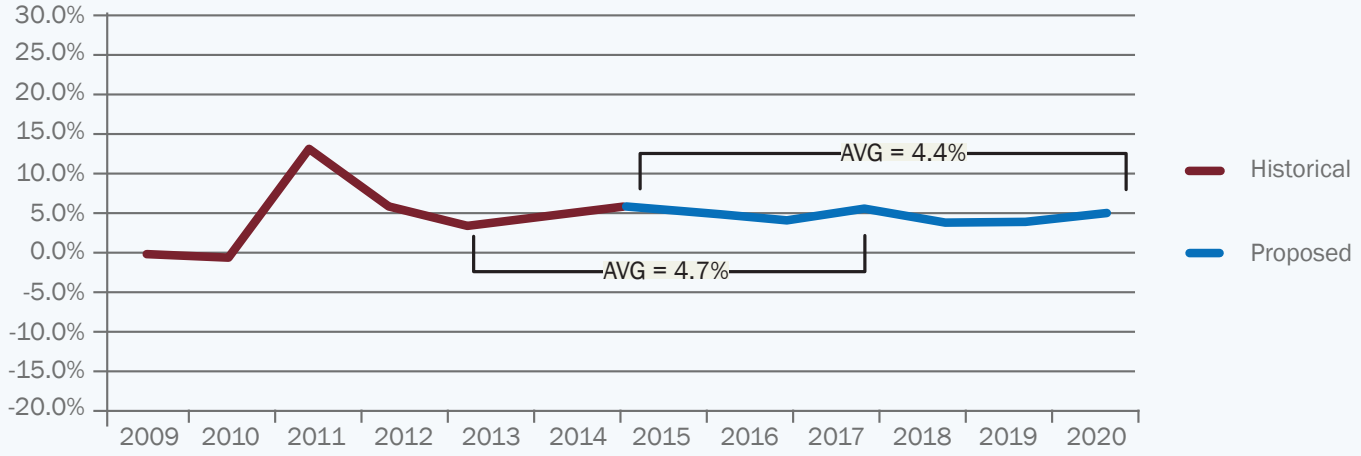


In developing the annual rate increase, City Light began with a baseline of 4 percent. This increase provides for investments and practices required to continue the current level of service. When new efficiencies are deducted and the cost of new initiatives is added, the resulting proposed average annual rate increase is 4.4 percent.

City Light is also exploring other opportunities to increase revenue in environmentally responsible ways, including additional electrification (e.g. industrial/port), optimizing power marketing (e.g. transmission capacity sales, wholesale power into California, energy imbalance market, etc.), and electric vehicle promotion.

The 2012 Strategic Plan established a path for rate increases which averaged 4.7 percent/year through 2018. The updated plan lowers that to 4.4 percent/year for 2015-2020. The rate path is based on several assumptions, including that demand for electricity will increase 0.3 percent per year during 2015-2020, inflation will remain low, and low energy prices will continue affecting the value of the surplus power City Light sells on the wholesale market. The average increase for a typical residential bill will be $2.96 a month. The actual amount many vary slightly from year to year as revenue and cost assumptions change. Additional rate information is online at www.seattle.gov/light/strategic-plan.

UPDATED STRATEGIC PLAN RATE PATH 2013-2018 VS. 2015-2020



Proposed rate increases do not include RSA surcharges or automatic passthrough of increased BPA cost.

EXTENSIVE CUSTOMER ENGAGEMENT

Public outreach and customer engagement were essential to the development of the original 2013–2018 Strategic Plan. These efforts fostered in-depth conversations with customers about how City Light is doing as it produces and delivers environmentally responsible, safe, affordable and reliable power. For the 2015–2020 Update, the utility continued its outreach to make certain its proposed adjustments and new initiatives were on the right track.

There were two distinct phases of public engagement and outreach:

- **Phase 1.** Conducted in fall and winter 2013 and 2014, this outreach gathered feedback for the utility and the Review Panel about possible changes in rate design. The outreach was targeted at both commercial and residential customers, as well as other stakeholders.
- **Phase 2.** Conducted in spring 2014, this outreach gave customers a progress report on the 2013-2018 Strategic Plan and provided an opportunity for them to give feedback on new initiatives proposed for the 2015-2020 update. The outreach targeted both commercial and residential customers utilizing some of the most extensive community involvement strategies in the utility's history.

In addition, the utility launched an extensive engagement campaign with the city's large and diverse non-English speaking communities, focusing on both rate design and Strategic Plan Update for a more comprehensive discussion and review.

Following is a summary of the public engagement and outreach efforts.

RATE DESIGN AND STRATEGIC PLAN UPDATE OUTREACH

- **Surveys**. Two surveys were conducted to gather customer feedback on rate design and the Strategic Plan Update. In each survey 20,000 residential customers were invited to participate. The surveys were also promoted via social media and prominently displayed on the Strategic Plan website.
- **Focus Groups and town hall-style meetings with non-English speaking customers.** City Light hosted six focus groups and four community presentations with Seattle's diverse ethnic communities. All presentations were conducted in the participants' native languages. Ethnic communities participating included Chinese, Korean, Somali, Vietnamese, Filipino, Spanish, Cambodian, Native American and Pan-Asian. (See Appendix.) A highlight of this outreach was a first-ever, all-Spanish-language Town Hall meeting in partnership with KUNS-TV Univision featuring City Light General Manager Jorge Carrasco. The half-hour show aired twice and was viewed by tens of thousands of Spanish-speaking customers in the Seattle area.
- **In-person meetings with Neighborhood District Councils.** City Light's leadership team made presentations and facilitated discussions with customers at Neighborhood District Councils throughout the city.
- **Online/Social media.** City Light staff used social media (Twitter, Facebook) to talk with customers about the values inherent in the Strategic Plan. This outreach featured a live online chat session with City Light leadership and links to the Strategic Plan website with opportunities to provide feedback. The utility's Power Lines blog also promoted the public survey, the live chat and the schedule of community meetings.

MEETING OUR COMMITMENT TO ADDRESS THE IMPACT TO LOW INCOME CUSTOMERS

City Light's Utility Discount Program assists income-qualified customers by offering a 60 percent discount on their electric bill. The program currently has approximately 14,000 customers enrolled receiving more than $7.3 million annually in discounts funded by ratepayers.

In 2013, City Light, in collaboration with other city departments and community-based organizations, launched a comprehensive outreach effort to increase the number of customers participating in the program. Activities included targeted marketing to non-English speakers, community partnerships, visibility at farmers markets, schools and community events, and advertising and outreach to seniors.

In 2013, the utility's efforts garnered 1,094 new program enrollments. The original plan goal was to increase enrollment by 2,500 and move toward a total of 22,000 by 2018. Under Mayor Murray's leadership, this goal will increase to 28,000 by 2018.

Another way the utility is assisting low income customers to save money is by helping them reduce their power use through home energy visits and weatherization improvements.

City Light also offers emergency assistance programs to help customers in need pay their utility bills, energy use education, and budget counseling.budget counseling and weatherization services.

ABOUT SEATTLE CITY LIGHT

Seattle City Light was created by the citizens of Seattle in 1902 when they approved bonds to build a hydroelectric power plant on the Cedar River. The plant delivered its first electricity to customers in 1905.

As a municipally-owned public power system, City Light is governed by elected Seattle officials and primarily supported by customer revenues as well as surplus power sales.

Recognized as a national leader in energy efficiency and environmental stewardship, City Light provides low-cost, reliable and environmentally responsible electric power. Over half of customers' electric needs are met from hydropower dams owned and operated by City Light; most of the remaining power needs are met by hydropower purchased from the Bonneville Power Administration and investments in renewable and conservation resources. City Light is the 10th largest public power system in the United States on the basis of retail energy sales.

Appendices

- Financial update
- Outreach summary
- Strategic Plan initiative update summaries
- Review Panel recommendations letter

Seattle City Light

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